

DEPARTMENT OF THE ARMY

COMPLETE STATEMENT

OF

THE HONORABLE JOHN PAUL WOODLEY, JR.

OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

BEFORE

THE SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

UNITED STATES HOUSE OF REPRESENTATIVES

ON

THE ARMY CIVIL WORKS PROGRAM

FISCAL YEAR 2006

MARCH 10, 2005

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Mr. Chairman and distinguished members of the Subcommittee:

Thank you for the opportunity to testify before the Water Resources and Environment Subcommittee of the Transportation and Infrastructure Committee and to present the President's budget for the Civil Works program of the Army Corps of Engineers for Fiscal Year (FY) 2006.

OVERVIEW OF FY 2006 ARMY CIVIL WORKS BUDGET

The FY 2006 budget for Army Civil Works provides funding to continue development and restoration of the Nation's water and related resources, operation and maintenance of existing navigation, flood damage reduction, and multiple-purpose projects, protection of the Nation's regulated waters and wetlands, and cleanup of sites contaminated as a result of the Nation's early efforts to develop atomic weapons.

The budget continues the Administration's focus on those activities within the Corps main mission areas that have high expected net economic and environmental returns. Building upon the Administration's Principles for Improving Program Performance in the Civil Works program, which were announced in the FY 2004 Budget, the FY 2006 budget uses performance criteria to allocate funding within each program area, in order to achieve a greater overall net return to the Nation from the total to be invested in FY 2006.

The budget emphasizes ongoing studies, projects and programs within the three main missions of the Civil Works program, namely, commercial navigation, flood and coastal

storm damage reduction, and aquatic ecosystem restoration. As in the past, to be supported in the budget, a study or project must also meet current economic and environmental performance standards and be otherwise consistent with established policies.

The budget provides funding for other activities as well, including regulatory protection of waters and wetlands, cleanup of sites contaminated by the Nation's early atomic weapons program, and the management of natural resources and provision of hydroelectric power and recreation services at Federally operated Civil Works projects. However, it does not include funding for work that should be the responsibility of non-Federal interests or other Federal agencies, such as wastewater treatment, irrigation water supply, and municipal and industrial water supply treatment and distribution.

The budget includes new discretionary funding of \$4.513 billion. This includes \$200 million for the Construction account that is over and above the amount in last year's budget and that would be available if the overall allocation of funding among projects under the enacted legislation is substantially consistent with the performance budgeting guidelines proposed in the budget. The estimate for associated outlays is \$4.643 billion.

The budget also includes proposed appropriations language to reclassify certain receipts collected by three of the Federal power marketing administrations. The appropriations language, if enacted, would enable the power marketing administrations to directly fund the operation and maintenance costs associated with the power functions of the Civil Works projects that generate the power that these agencies sell. The budget proposes to make available \$181 million in offsetting collections in FY 2006 for this purpose, reducing the total discretionary funding request for the Civil Works program to \$4.332 billion.

The first attachment to this testimony displays the current estimate for the distribution of the discretionary funding request by appropriation account, business program, and source.

PERFORMANCE-BASED BUDGETING

Budget and Performance Integration, one of the initiatives of the President's Management Agenda, is central to the preparation of the FY 2006 Army Civil Works budget. The budget targets funding to studies and projects with high returns, and incorporates performance planning into budget planning by program area.

Targeting Funding to Water Resources Studies and Projects with High Returns

For many years, there have been too many projects authorized and initiated without funding for timely completion, which has led to protracted construction schedules and the deferral of benefits for the most worthy projects. Consequently, the overall

performance of the Civil Works program has suffered. The budget addresses this problem by allocations for planning, design, and construction that reflect a focus on those studies and construction projects with the highest expected returns in the Corps' primary mission areas, which are commercial navigation, flood and storm damage reduction, and aquatic ecosystem restoration. The budget also targets funding for operation and maintenance to the highest-return activities. These considerations are discussed below.

Studies and Design. The FY 2006 budget supports funding for the most promising studies and preconstruction engineering and design (PED) activities.

For the navigation and flood and storm damage reduction studies, performance was assessed based primarily on potential economic benefits and costs. For PED activities for such projects, the estimated ratio of remaining benefits to remaining costs is known, and PED activities for projects with ratios of 3.0 to 1 or greater at a 7 percent discount rate were funded. For aquatic ecosystem restoration studies and PED activities, performance was assessed based on relative cost-effectiveness in solving regional and national aquatic ecosystem problems. In all cases, the likelihood of implementation also was considered, including the existence of an executed cost sharing or concurrent financing agreement. The FY 2006 budget concentrates funding on the 142 most promising studies and PED activities. This compares to 272 studies and PED activities that were funded in the FY 2005 budget.

The budget for the General Investigations account is \$95 million. Of this amount, \$55 million is for studies, \$6 million is for PED activities, and \$34 million is for planning coordination, technical assistance, and research and development. In addition, the Flood Control, Mississippi and Tributaries (MR&T) account includes about \$1 million for studies and \$720,000 for the collection and study of basic data.

The budget provides a total of \$20 million to continue planning and design work under the very high priority Louisiana Coastal Area study, which is needed to address the continuing loss of wetlands along the Louisiana coast. This increase of \$12 million over the budget allocation for Fiscal Year 2005 reflects the progress that the Corps has been making in working with the State to establish priorities for implementation of restoration and related science and technology efforts over a 10-year period.

The budget also includes funding to initiate four reconnaissance studies that competed successfully with the highest performing of the ongoing studies. Three of these studies are funded in the General Investigations account: Coyote Creek, California; Neches River, Texas; and St. Louis, Missouri. The fourth is funded in the MR&T account: a high priority study of opportunities to reduce flood damages and restore the aquatic ecosystem through the further acquisition of real property interests in the Atchafalaya Basin.

One of my priorities is to improve analytical tools to support water resource planning and decision-making. The budget addresses this, for instance, by increasing funding for research and development on modeling and forecasting tools, including \$2.4 million for

the Navigation Economic Technologies research program funded in the General Investigations account.

Construction. The budget uses seven performance budgeting guidelines to allocate funds among projects in the Construction account, in order to achieve greater value to the Nation from the construction program. In conjunction, the budget proposes the repeal of existing continuing contract authorities and their replacement with modern, multi-year contracting authorities, as discussed in the section on “Proposals for Programmatic Changes.”

The performance guidelines are spelled out in the Appendix to the President’s FY 2006 Budget and are provided as the second attachment to this testimony. Under the performance guidelines, construction projects are ranked and funded based on their estimated economic and environmental returns. The net effect is to redirect funding away from the lowest priority projects to accelerate completion of the highest priority projects. The guidelines are based on sound financial management principles similar to those used by private industry to rank and select investments.

The budget provides \$1.637 billion dollars for the Construction account, including \$200 million that would be available only if the overall funding allocation among projects under the enacted appropriations legislation is substantially consistent with the seven proposed performance guidelines. The budget also provides \$111 million dollars for construction activities in the MR&T account after a reduction for anticipated savings and slippages. The total of \$1.748 billion is the highest amount ever included for construction in a Civil Works budget. In all, the budget provides funding for 105 specifically authorized projects in the two accounts.

Under the performance guidelines, all construction projects are ranked within their program area by their remaining benefits relative to their remaining costs, or, in the case of aquatic ecosystem restoration projects, by the extent to which they cost-effectively address a significant national or regional aquatic ecological problem. However, dam safety, seepage correction, and static instability correction projects are given the highest priority without regard to these rankings. The budget provides 100 percent of the maximum that the Corps can use to carry out work efficiently on 14 dam safety, seepage correction, and static instability correction projects.

Based on these performance rankings, the budget identifies a total of 47 high priority projects. Among the 47 high priority projects are nine projects that the Administration views as a national priority and 38 other projects that have a high ratio of remaining benefits to remaining costs, or that are very cost effective in addressing a significant regional or national aquatic ecosystem restoration problem. To accelerate completion of the high priority projects, the guidelines provide that the budget must allocate at least 80 percent of the maximum that the Corps could use to carry out work on these projects efficiently. The Corps provided the estimates for the maximum that the Corps could use to carry out work on these projects efficiently in mid-January, 2005.

The national priority projects include eight that the Administration previously has identified: Columbia River Fish Recovery; South Florida Everglades Ecosystem Restoration; Missouri River Fish and Wildlife Recovery; New York and New Jersey Harbor; Olmsted Locks and Dam; Sims Bayou, Texas; Upper Mississippi River Restoration; and West Bank and Vicinity, Louisiana. In addition, for the first time, Oakland Harbor, California, is included as a national priority.

The budget includes \$137 million for the Corps contribution to the Everglades restoration effort. Of this amount, \$35 million is for the Corps to participate financially in the Modified Water Delivery project, along with the National Park Service. The Administration has proposed appropriations language in the Construction account and companion appropriations language for the National Park Service to clarify that both agencies would be contributing financially to the Modified Water Delivery project. In addition, the budget proposes funding of the pilot projects program for the Comprehensive Everglades Restoration Plan (CERP) component of the Everglades program as part of design for the CERP features because the need to prove these technologies is central to the success of this restoration effort.

The budget proposes funding to initiate construction of the Washington, D.C. and Vicinity flood damage reduction project, which is one of the highest-return projects in the Nation. The initiation of this project is necessary to reduce the risk of flood damage to the museums on the National Mall, the Franklin Delano Roosevelt Memorial, and the World War II Memorial.

The budget also includes funding for an additional 44 construction projects. The funding is to continue work on contracts awarded before FY 2006, and to initiate contracts in the instances of several beach nourishment projects to mitigate sand loss impacts due to the operation and maintenance of Federal navigation projects.

The amount budgeted for the construction and major rehabilitation of inland waterway projects, \$353 million, is the highest amount ever included in a Civil Works budget. This funding will help ensure the continued efficiency and reliability of the major locks and dams on the inland waterways system.

The budget proposes that 35 previously budgeted construction projects with lower returns be examined for possible suspension. The budget provides a suspension fund of \$80 million in the Construction account and a suspension fund of \$8 million in the MR&T account for these projects. Where it would be less costly to complete an ongoing contract, that course would be pursued. Otherwise, the contract would not be funded, and the suspension fund would be used to pay the Federal share of settled claims. Construction of the suspended projects could be restarted in the future, to the extent that they compete successfully for future funding based on their relative economic and environmental returns.

Operation and Maintenance. The budget for operation and maintenance emphasizes essential operation and maintenance activities at key Corps facilities, including maintenance dredging and structural repairs. The program areas of navigation, flood

control, hydropower, recreation, and natural resources management receive operation and maintenance funding. The overall budget for the Operation and Maintenance account is \$1.979 billion, the highest ever included in a Civil Works budget. The budget provides an additional \$157 million for operation and maintenance activities in the MR&T account, after a reduction for anticipated savings and slippages.

In general, the budget provides funding for “must-have” operation and maintenance activities at Civil Works facilities. These include operations and time-sensitive maintenance necessary for meeting performance objectives at important facilities, plus efforts to comply with Federal environmental and other mandates.

The budget continues the policy of establishing priorities for funding navigation maintenance based primarily on the extent to which a channel and harbor project or waterway segment supports high volumes of commercial traffic. The budget also funds channel and harbor projects that have low commercial traffic but support significant commercial fishing, subsistence, or public transportation benefits. Navigation operation and maintenance at other facilities is funded to support surveys and other caretaker activities.

The budget includes funding for an assessment of the economics and long-term policy options for navigation facilities with relatively low levels of commercial traffic. The study will identify the universe of Federal channel and harbor projects and inland waterways segments that support lower levels of commercial use, classify these projects based on the kinds of contributions that they make, develop methods to quantify the differences in their attributes, and examine possible criteria for determining when a continued investment in operation and maintenance would produce a significant net return to the Nation. The study also will formulate a range of possible long-term options for the funding and management of navigation projects with lower levels of commercial use, evaluate these options, and examine their applicability to the various types of such projects.

Since the events of September 11, 2001, the Civil Works program has received appropriations of \$362 million to provide facility protection measures that have recurring costs (such as guards), to perform assessments of threats and consequences at critical facilities, and to design and implement the appropriate “hard” protection at those critical facilities. The Administration is continuing its commitment to facility protection in FY 2006, with an allocation of \$72 million for facility protection in the Operation and Maintenance account. Of the \$72 million, about \$30 million is for recurring costs, about \$30 million is hard protection at operating projects, and \$12 million is included as a “remaining item” in the Operation and Maintenance account for recurring costs and hard protection at laboratory, administrative, and other facilities.

The budget includes \$20 million for an emergency maintenance reserve fund, from which the Assistant Secretary of the Army (Civil Works) would make allocations to meet high-priority, unexpected, and urgent maintenance needs at key facilities. When an unexpected emergency occurs under current practice, it is sometimes difficult to find the needed funds on a timely basis. The new arrangement will enable the Civil Works

program to respond to these situations promptly, without interfering with other program commitments.

Incorporating Performance Planning by Program Area

The findings and recommendations of program evaluations using the Program Assessment Rating Tool (PART) informed budget decisions. To the extent that performance data were available, the Corps used this information during the budget development process to allocate funding.

The Corps also uses the PART to evaluate the performance of its program areas and determine whether they are achieving the desired results, and to improve the overall effectiveness and efficiency of these program areas. This year the recreation, storm damage reduction, and coastal channels and harbors program areas were assessed, and the hydropower program area was reassessed.

On March 22, 2004, the then-Chief of Engineers and I provided the Civil Works Strategic Plan to the committees and subcommittees of Congress responsible for water development authorizations and appropriations, including this Subcommittee. That plan included an effort to suggest some program-specific goals, objectives, and performance measures, as well as some that are crosscutting.

Both the Civil Works Strategic Plan and the PART-based program evaluations are works in progress. As Civil Works programs are newly assessed and reassessed, the resulting findings will be addressed and recommendations implemented. Further, as new performance measures are identified and existing measures refined through the PART process, these changes will be reflected in the Strategic Plan through periodic updates.

To illustrate how the FY 2006 budget for Civil Works reflects performance planning, I would like next to discuss the Regulatory Program and the Emergency Management program.

Regulatory Program. The activities funded in the budget include permit evaluation, enforcement, oversight of mitigation efforts, administrative appeals, watershed studies, special area management plans, and environmental impact statements.

The recent performance assessment for this program concluded that it is moderately effective. Better efforts are needed to ensure compliance with permit conditions and mitigation requirements. The volume of permits is growing, and billions of dollars of investments are affected by permit processing times. One of my priorities for the Civil Works program is to improve the effectiveness of aquatic resource protection and the efficiency of permit reviews and decision-making.

For the regulatory program, the performance measures reflect a strong linkage between funding decisions and performance. The budget provides \$160 million, which is \$10

million more than included in the FY 2005 budget, \$16 million more than the enacted amount for FY 2005, and more than has been budgeted for the regulatory program ever before. This increase is needed and will enable the Army to improve protection of aquatic resources and reduce permit evaluation times.

Emergency Management. The Emergency Management program includes work funded in the Flood Control and Coastal Emergencies (FCCE) account and the National Emergency Preparedness program, with FCCE comprising the bulk of the program. The FCCE account finances response and recovery activities for flood, storm, and hurricane events, preparedness for natural events, and preparedness to support to the Federal Emergency Management Agency through the Federal Response Plan.

The recent performance assessment of FCCE activities concluded that they are moderately effective, and should be funded at the average annual cost of doing business so as to improve program management and reduce the likelihood of having to borrow from other accounts or obtain supplemental appropriations when disaster events occur. Accordingly, the FY 2006 budget includes \$70 million, which is approximately the amount that the Corps has spent in a typical year on flood and coastal storm emergency preparedness, response, and recovery activities.

FOUR PROPOSALS FOR PROGRAMMATIC CHANGES

Programmatic changes proposed in the budget include the following: the funding of beach nourishment and renourishment to address the impacts of navigation projects; replacement of continuing contracts with multi-year contracts; direct funding of hydropower operation and maintenance costs; and raising additional revenues to finance recreation modernization.

Beach Renourishment

This year the coastal storm damage reduction program area of the Army Corps of Engineers (Corps) was evaluated using the Program Assessment Rating Tool (PART). That evaluation addressed concerns with having a long-term Federal involvement in periodic beach renourishment, which ties up out-year funds that in many instances could be invested in other projects that yield a greater return to the Nation. This finding supports a policy of not providing Federal funding for the costs of renourishment to replace sand lost due to ordinary, expected natural erosion. Therefore, the Administration's view remains that non-federal interests should be responsible for those costs once the initial nourishment has been accomplished, just as they operate and maintain other types of projects once the installation is complete.

The Administration continues to support Federal participation in the initial phase of authorized beach nourishment projects for storm damage reduction and ecosystem restoration.

The budget also includes funding for beach nourishment and renourishment to mitigate sand loss impacts to shorelines due to the operation and maintenance of Federal navigation projects. The budget proposes that both the initial nourishment and renourishment phases be funded by Civil Works 100 percent, but only to the extent that they address the impacts of Federal navigation operation and maintenance. The budget also proposes that this Civil Works funding be derived from the Harbor Maintenance Trust Fund. The budget recommends enacting this proposal through appropriations language for the Construction account.

The Army will continue to participate financially in other coastal activities. These include the following: planning and design of coastal storm damage reduction and ecosystem restoration projects; deposition of dredged material from navigation projects on the adjacent shores when it is the least-cost, environmentally acceptable disposal method; one-time placements of dredged material for the beneficial use of storm damage reduction; and regional sediment management research.

The budget also provides funding to continue renourishment-related activities for the Westhampton Shores area of the Fire Island Inlet to Montauk Point, New York, project, as called for by a court order in the settlement of the case of Rapf et al. vs. Suffolk County of New York et al.

Construction Contracting

The budget proposes to replace the special continuing contract authorities of the Civil Works program with the authority to issue standard multi-year contracts, as are used elsewhere in the Federal Government. This change to multi-year contracting is needed to increase control over future contract costs, make more funding available in the out-years to complete Civil Works projects that have a high net return to the Nation, and subject contracting in the Civil Works program to the same rules and oversight that apply in other Federal agencies. The budget recommends enacting this proposal through an appropriations general provision.

Continuing contracts involve unfunded obligations that sometimes can be large. This long-term commitment to fund projects regardless of their relative performance has reduced the overall performance of the Civil Works program. In addition, under continuing contracts, contractors may accelerate their earnings, which increases the immediate cost to the Government of the accelerated work performed and could lead to contract termination, inefficient progress on remaining work, or the deferral or slowdown of important work on other projects.

Direct Financing of Hydropower Operation and Maintenance Costs

In the past, the Congress generally has financed the operation and maintenance costs of Civil Works hydroelectric facilities from the General Fund, and the Federal power

marketing agencies have repaid the Treasury for these costs from the revenues provided by ratepayers. The exception has been in the Pacific Northwest where, under section 2406 of the National Energy Policy Act of 1992, Public Law 102-486, the Bonneville Power Administration (BPA) has directly financed the costs of operating and maintaining the Corps' hydroelectric facilities from which it receives power. BPA funds have been used in this manner since FY 1999.

Each year, Corps facilities experience unplanned outages around 3 percent of the time. In 1999, the General Accounting Office found that the Corps' hydropower facilities are more likely to experience unplanned outages as private sector facilities, because the Corps does not always have sufficient funds appropriated from the General Fund to schedule the needed preventive maintenance. To address this problem, the budget proposes that the Southeastern Power Administration, the Southwestern Power Administration, and the Western Area Power Administration finance hydropower operation and maintenance costs directly, in a manner similar to the mechanism used by Bonneville. The budget contemplates that these power marketing administrations, in consultation with the Corps, would make more funding available for hydropower operation and maintenance in order to provide economical, reliable power to their customers. Unplanned outages would be expected to decline over time.

The budget recommends enacting this proposal through appropriations language for the Operation and Maintenance account. The proposal, if enacted, would reclassify certain receipts collected by the power marketing agencies, and use the receipts to directly fund a category of expenses now being paid out of the General Fund.

Recreation Modernization

The FY 2006 budget proposes a recreation modernization initiative for Civil Works recreation facilities, based on a promising model now used by other major federal recreation providers such as the National Park Service and the Forest Service. The goal of the modernization initiative is to ensure that quality public outdoor recreation opportunities may be provided on Corps lands into the future.

The Administration will propose legislation to allow the Corps to use additional fees and other revenues to upgrade and modernize recreation facilities at the sites where this money is collected. The legislation will include authority for the Corps to charge entrance fees and other types of user fees where appropriate.

Specifically, the Corps would use the additional collections above a \$37 million per year baseline to improve the Corps recreation program. This will give the Corps staff who manage Civil Works recreation facilities a stronger incentive to collect fees and develop other sources of revenue. I would expect that the people who enjoy recreation at Corps facilities will support this proposal as well, since they will know that the additional money would be used to improve the program.

In conjunction with the proposed legislation, the Corps will focus on the following areas of interest: adjustments to fees and user charges under existing authority; new planning, financing, and management partnerships with local units of government such as Lake Improvement Districts; and expanded cooperation with local volunteers, other stakeholders, and interest groups. Demonstration projects in urban areas will be investigated, and the six demonstration projects initiated in FY 2005 will be continued.

MANAGEMENT AND OVERSIGHT

The Assistant Secretary of the Army (Civil Works) oversees Civil Works budget and policy. Corps executive direction and management of the Civil Works program are funded from the General Expenses account. The President's Management Agenda is the centerpiece of the Army's and the Corps' efforts to improve the effectiveness of program management.

Office of the Assistant Secretary of the Army for Civil Works

Congress funded the Assistant Secretary's office from Energy and Water Development appropriations for the first time in FY 2005. The budget proposes that the Assistant Secretary's office be funded from the Operation and Maintenance, Army account in defense appropriations, as had been the custom until FY 2005. The reasons are that the Assistant Secretary, as an advisor to the Secretary of the Army, has some oversight responsibilities outside the purview of the Subcommittee on Energy and Water Development, and the Assistant Secretary's office is a part of the Army headquarters, where many expenses are centrally funded and managed.

General Expenses

Funding budgeted for the General Expenses account is \$162 million. These funds will be used for executive direction and management activities of the Corps headquarters, the Corps division offices, and related support organizations that pertain to Civil Works.

Audit activities will be financed by the Revolving Fund rather than under General Expenses. The FY 2005 budget and enacted amount of \$167 million includes \$7 million for an audit of the Civil Works financial statements by the Department of Defense Inspector General. Financial audit activities formerly were carried out by the Army Audit Agency (AAA) using its own funding, but under new General Accounting Office auditing standards the AAA is not sufficiently independent of the Corps to conduct this audit. The balance statement audit being performed in FY 2005 includes extensive review of historical data to remedy findings of the Inspector General. This type of review is appropriate for funding from the General Expenses account and is expected to be completed with the FY 2005 funds. The costs of annual audits beginning in FY 2006

will be considered normal costs of doing business and, as such, will be financed from the Revolving Fund and appropriately distributed to the appropriation accounts.

President's Management Agenda

The Civil Works program is making progress on the President's Management Agenda. Like many agencies, the Corps of Engineers started out in 2002 with "red" ratings across the board.

The Civil Works program is striving to attain "green" or "yellow" status scores for most initiatives by July 2005. For the human capital initiative, significant progress is expected in reducing hiring time lags and integrating the accountability system into decisions. For competitive sourcing, the Corps has two ongoing competitions and is conducting preliminary planning for three more. For financial management, no change in status is expected until audit issues have been resolved and historical data have been collected. For e-government, efforts are underway to establish an effective Enterprise Architecture, adhere to cost and schedule goals, secure currently unsecured information technology systems, and implement applicable e-government initiatives. For integration of budget and performance, efforts are under way to prepare additional program assessments and reassessments, to improve performance measures, and to begin to use performance information in short-range decision processes. For real property asset management, the goal is to develop and obtain approval of an asset management plan, an accurate and current asset inventory, and real property performance measures.

I am confident that this work on the President's initiatives will yield greater program efficiency and effectiveness in the years to come.

CONCLUSION

In his State of the Union Address of February 2, 2005, the President underscored the need to restrain spending in order to sustain our economic prosperity. As part of this restraint, it is important that total discretionary and non-security spending be held to levels proposed in the FY 2006 Budget. The budget savings and reforms in the Budget are important components of achieving the President's goal of cutting the budget deficit in half by 2009, and we urge Congress to support these reforms. The FY 2006 Budget includes more than 150 reductions, reforms, and terminations in non-defense discretionary programs, one of which affects the Civil Works program, specifically, the Civil Works construction program: the adoption of performance guidelines and reduction in funding compared to FY 2005 enacted amounts. The Army wants to work with the Congress to achieve these savings.

The FY 2006 budget for the Army Civil Works program was developed using the modern management concept of performance-based budgeting, in line with the President's management principles.

At \$4.513 billion, this is the highest Civil Works budget in history. Specifically, the amounts for construction, operation and maintenance, and the Regulatory Program are the highest ever submitted to Congress.

Nonetheless, the budget reflects explicit choices based on performance, particularly insofar as funding is targeted for high performing studies, design, and construction, and for areas where additional funding can make a real difference such as in the emergency management program and the regulatory program.

As I have testified before, I have three priorities in mind for the Civil Works program. One priority is to develop the Civil Works budget and manage the program based on objective performance measures. My second priority is to improve the analytical tools that we use for water resources planning and decision-making, and my third priority is to improve the effectiveness and efficiency of the regulatory program. This budget contributes to the advancement of all three goals.

The Army Civil Works budget for FY 2006 will enable the Civil Works program to move ahead with many important investments that will yield good returns for the Nation in the future.

Thank you, Mr. Chairman and members of the Subcommittee, for this opportunity to testify on the President's Fiscal Year 2006 budget for the Civil Works program of the Army Corps of Engineers.

ATTACHMENT 1
DEPARTMENT OF THE ARMY
CORPS OF ENGINEERS – CIVIL WORKS BUDGET, FY 2006

Requested New Appropriations by Account:

General Investigations	95,000,000
Construction	1,637,000,000
Operation and Maintenance	1,979,000,000
Regulatory Program	160,000,000
Flood Control, Mississippi River and Tributaries	270,000,000
General Expenses	162,000,000
Flood Control and Coastal Emergencies	70,000,000
Formerly Utilized Sites Remedial Action Program	<u>140,000,000</u>
TOTAL	4,513,000,000

Requested New Appropriations by Business Program:

Commercial Navigation	1,796,000,000
Channels and Harbors	(882,000,000)
Inland Waterways	(914,000,000)
Flood and Coastal Storm Damage Reduction	1,085,000,000
(Flood Damage Reduction)	(998,000,000)
(Coastal Storm Damage Reduction)	(87,000,000)
Environment	716,000,000
(Aquatic Ecosystem Restoration)	(483,000,000)
(FUSRAP)	(140,000,000)
(Natural Resources)	(93,000,000)
Hydropower	249,000,000
Recreation	268,000,000
Water Supply	2,000,000
Emergency Management	75,000,000
Regulatory Program	160,000,000
Executive Direction and Management	<u>162,000,000</u>
TOTAL	4,513,000,000

Sources of New Appropriations:

General Fund	3,436,000,000
Harbor Maintenance Trust Fund	674,000,000
Inland Waterways Trust Fund	184,000,000
Special Recreation User Fees	37,000,000
Disposal Facilities User Fees	1,000,000
Power Marketing Administration Direct Funding	<u>181,000,000</u>
TOTAL	4,513,000,000

Additional New Resources:

Rivers and Harbors Contributed Funds	445,000,000
Coastal Wetlands Restoration Trust Fund	61,000,000
Permanent Appropriations	<u>18,000,000</u>
TOTAL	524,000,000

Total New Program Funding 5,037,000,000

ATTACHMENT 2
DEPARTMENT OF THE ARMY
CORPS OF ENGINEERS – CIVIL WORKS BUDGET, FY 2006

PERFORMANCE BUDGETING GUIDELINES FOR CIVIL WORKS CONSTRUCTION

1. *Funding distribution and project ranking.* (a) All ongoing construction projects, including those not previously funded in the budget, will be classified as being primarily in one of the following program-based categories: Coastal Navigation; Inland Navigation; Flood Damage Reduction; Storm Damage Reduction; Aquatic Ecosystem Restoration; or All Other (including the major rehabilitation of existing commercial navigation, flood damage reduction, and hydropower facilities). (b) At least 70 percent of the construction budget will be allocated to projects in the first four of these categories. At least 5 percent of the construction budget will be allocated to "all other" work. The funding allocated for the construction of aquatic ecosystem restoration projects will not exceed 25 percent of the budget in the construction program. Changes to these percentages are, however, permitted under the seventh guideline. (c) Projects in all categories except aquatic ecosystem restoration will be ranked by their remaining benefits divided by their remaining costs (RBRC). All RBRCs will be calculated using a seven percent real discount rate, reflect the benefits and costs estimated in the most recent Corps design document, and account for the benefits already realized by partially completed projects. Aquatic ecosystem restoration projects will be ranked primarily based on the extent to which they cost-effectively address a significant regional or national aquatic ecological problem. (d) Dam safety, seepage, and static instability projects will be treated separately. They will receive the maximum level of funding that the Corps can spend efficiently in each fiscal year, including work that requires executing new contracts.

2. *Projects with very high RBRCs.* The budget will provide funds to accelerate work on the projects with the highest RBRCs within each category (or the most cost-effectiveness in addressing a significant regional or national aquatic ecological problem, for aquatic ecosystem restoration). Each of these projects will receive not less than 80 percent or the maximum level of funding that the Corps can spend efficiently in each fiscal year, including work that requires executing new contracts.

3. *New starts and resumptions.* The budget will provide funds to start new construction projects, and to resume work on projects on which the Corps has not performed any physical construction work during the past three consecutive fiscal years, only if the project would be ranked in the top 20 percent of the ongoing construction projects in its category that year and appears likely to continue to qualify for funding as a project with very high RBRC under the second guideline thereafter.

4. *Continuing contracts.* Except for projects considered for deferral, the budget will continue to support work under continuing contracts executed prior to 2006. From 2006 onward, the Corps will issue contracts based only on the kinds of authorities that are available to other Federal agencies. All new contracts will include clauses to minimize termination penalties, cap cancellation fees, and ensure that the Corps is able to limit the amount of work performed under each contract each year to stay within the overall funding provided for the project during the fiscal year. The Corps will also reduce out-year funding commitments by using contracts whose duration is limited to the period needed to achieve a substantial reduction in costs on the margin.

5. *Lower priority projects.* All projects with an RBRC below 3.0 will be considered for deferral, except for aquatic ecosystem restoration projects. Aquatic ecosystem restoration projects that do not primarily address a significant regional or national aquatic ecological problem and are less than 50 percent complete will be considered for deferral, except for those that are highly cost-effective in addressing such problems. Where a project considered for deferral was previously funded, the budget will cover the cost of terminating or completing each ongoing contract, whichever is less.

6. *Redirection of funding.* Any budget year and all future year savings from the suspension of ongoing construction projects, after covering the cost of termination or completing ongoing contracts, will be used to accelerate projects with high RBRCs. The savings will be allocated to the projects with the highest RBRCs and the highest environmental returns in the construction program.

7. *Ten percent rule.* The budget may allocate up to a total of 10 percent of the available funding to ongoing construction projects regardless of the requirements stated above. However, this may not be used to start or resume any new projects.